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Analysis of Revenue Budgets and Budgetary Control Policy

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ABSTRACT:

Analyzing the revenue budgets and budgetary control policies of LG ELECTRONICS is presented in this paper. To study the revenue budgets as it serves as a mechanism through which his objectives and policies are affected. In the light of the findings can be offered for the improvement of its budgetary control. The paper provides suggestion for the better and successful budgetary control. To organize data for the past five years, compare and study the trend possible

I. INTRODUCTION

Need for the Study

The importance of budgeting and budgetary control in the decision making, revenue budget estimate of a business needs no emphasis. Therefore, an analysis of the budgeting and budgetary control of a business firm is always a dynamic subject for research and development. With this back drop a humble attempt is being made to analyze the budgeting control of LG ELECTRONICS INDIA LTD.

Scope of the Study

Under this study the budgeting and budgetary control under study is done from the angles of efficient controlling and corrective decisions and operational efficiency.

Methodology

In this case study. The budgeting control of the LG ELECTRONICS is analyzed in this study. The required data has been collected from primary data and such as annual reports were taken. And reasons for variances were analyzed. The variances between the revised estimates and actual were computed. Firstly, the revenue budget estimates for the past five years were taken. Secondly, the variance between the revised estimates and actual were computed.

Thirdly, the reasons for variances were analyzed and measures were taken. Graphs are given regarding variances of sales, total cost of production, sales quantity and inventory, and interpretation.

Limitations

The analysis is only based on the information given in the financial statements of the organization. The final accounts compared for the year 2005-06. Data is taken from internal sources of the company only.

- The preparation of a budget under inflationary conditions and changing Government policies is really difficult. Thus, the accurate position of the business cannot be estimated.
- Accuracy in budgeting comes through expenditure. Hence it should not be relied on too much in the initial stages.
- Budget is only a management tool. It is not a substitute for management. It cannot replace management in decision making.
- Budgeting involves a heavy expenditure, which small concerns cannot afford.
- There will be active and passive resistance to budgetary control as it points out the efficiency or inefficiency of individuals.
- The success of budgetary control depends upon wiling co-operation and team work. This is often lacking.

Frequent changes maybe called for in budgets due to fast changing industrial climate. It may be difficult for a company to keep pace with these fast changes, because revision of budgets is expensive exercise.

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II. ANALYSIS OF BANKING & FINANCIAL SERVICES

COST OF PRODUCTION BUDGET (2006-2007)

PARTICULARS	BE	RE	Actuals	Variance	%of	
Sales	12000	12531	5135	3396(adv)	vop	
Value of production	11332	10360	8495	2265(adv)		
Cost of production						
Raw materials	3665	2582	2558	519(adv)	23.99	30.11
Consumables	630	512	511	107(adv)	4.75	6.01
Power	600	623	719	227(adv)	5.79	8.46
Fuel	562	555	517	78(adv)	5.15	6.08
Repairs & Maintains	370	335	366	101(adv)	3.10	4.30
Off loading	849	763	1476	847(adv)	7.08	17.37
Total variable cost	6677	5370	6147	1909(adv)		
Salaries & Wages	3309	2352	2421	69(adv)		
Other expenses	300	369	389	20(adv)		
Factory Expenses	-	-	-	-		
Admin & Selling's	372	360	378	18(adv)		
Depreciation	254	203	130	73(fav)		
R&D	125	19	1	18(fav)		
Amortization	10	10	21	11(adv)		
Interest	25	16	13	3(fav)		
Total fixed cost	4370	3329	3353	24(adv)		
Total Cost of Prod	11047	8699	9500	801(adv)		
Operating profit	-78	-250	-193	57(adv)		
Capacity utilization	70%	96%	72%	24%(adv)		
Sales quantity (tones)	2011	1975	1088	887(fav)		

INVENTORY BUDGET (2006-2007) (Rs in Lakhs)

PARTPCULARS	BE	RE	ACTUALS	VARIANCE
Raw materials	950	906	966	60(adv)
Consumables	600	485	513	28(adv)
Spares	350	273	271	2(fav)
Internally generated	800	1137	1057	80(fav)
Work in progress	3184	3490	2848	642(fav)
Finished goods	10	255	11	244(fav)
Total inventory	5894	6546	5666	880(fav)

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DETAILS OF OTHER EXPENSES (2006-2007)

PARTICULARS	BE	RE	ACTUALS	VARIANCE
FACTORY EXP (A)				
Water	20.59	21	32	11 (adv)
Rates & Taxes	9.6	10	24	14 (adv)
Insurance	32	32.15	33.08	0.93 (adv)
Amortising Tools	0.4	0.40	0.45	0.5 (adv)
Miscellaneous	9.9	10	10.11	0.11 (adv)
	72.49	73.55	99.64	26.09 (adv)
ADMN. EXP (B)				
Rent & service charge	84	9	10	1 (Adv)
Postage Telephone & Telex	29	29	27	2 (fav)
Printing & Stationery	21	21	24	3 (Adv)
Travel Expenses	55	55	46	9 (fav)
Bank charges	20	25	19	6 (fav)
Advertisement	8	8.09	3	5.09 (fav)
Audit Fees	0.91	0.70	0.79	0.09 (adv)
Other Audits	5	0.05	1.10	0.05 (adv)
Legal Exp	1.13	1.67	1.14	0.25 (adv)
Conveyance charges	1.66	-	-	-
Books & Periodicals	2.7	2.77	3	0.23 (adv)
Membership & seminars fees etc.	9	10	10.1	0.01 (adv)
Committee meetings & Entertainment exp	4	5	5.1	0.01 (adv)
Hostel & Guest House	5	4	6	2 (Adv)
Less Income				
Consultancy exp	6	6.1	7	1.1 (adv)
Misc	64	16.33	7.56	8.77 (fav)
	316.4	193.71	170.79	22.92 (fav)
SELLING EXP (C)				
Selling Agency com	3.79	3.79	3.49	0.3 (fav)
Publicity Exp	15	11.31	8.52	2.79 (fav)
Export Promotion Exp	2	0	0	0
Misc	10	16.33	7.56	8.77 (fav)
	30.79	31.43	19.57	11.86 (fav)
CHARGED OFF, (D)				
WRITTEN OFF&PRO				
Mise	94.77	13.69	33.76	20.07 (adv)
Total A+B+C+D	514.45	312.38	323.76	11.38 (adv)

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DETAILS OF SALARIES AND BENEFITS (2006-2007) (Rs in Lakhs)

PARTICULARS	BE	RE	ACTUALS	VARIANCE
Salaries & Allowances	2139	2358	2421	69(adv)
Leave encashment	111	96	89	7(fav)
Comp Off	29	27	25	2(fav)
Incentive Bonus	0	0.43	0	0.43(adv)
Statutory Bonus	15	9.19	13	3.81(fav)
Stipend to Trainees	217	217	229	12(adv)
PF(Incl Insp)	200	216.53	228.5	12.48(Adv)
Gratuity	123.41	313.95	106.37	207.38(fav)
VRS	103.85	109.78	111.87	2.09(Adv)
Misc	8.2	7.15	3.6	3.55(fav)
	2946.46	3355.03	3227.34	127.69)fav)
WELFARE				
EXPENSES				
Canteen Expenses	47	55	56	1(adv)
(Less Receipts)				(adv)
Health Care	100	113	127	14(Adv)
Family Welfare	5.43	6	7.1	1.1(adv)
Liveries	14.5	26	28	2(adv)
LTC	3.42	81.1	85	3.9(Adv)
Transport	66	50	39.47	10.53(fav)
Less Receipts)				
Conv Allowance	44	38	41	3(adv)
Children Educ Allowan	13	11	15	4(adv)
Staff Welfare	0.05	408	364	44(fav)
Int Subsidy on	18	15	19	4(adv)
House Loans				
Township Expenses	17	15	20	5(adv)
Less Receipts)				
Township Expenses	25	26	29	3(adv)
TOTAL WELFARE	**469**	**507.5**	**490.11**	**24.48(fav)**
GRAND TOTAL	**3415.46**	**3862.53**	**3717.45**	**145.08(fav)**

REASONS FOR VARIANCES FOR THE YEAR 2006-2007

The performance in respect of both VOP and sales was low than the targets and is mainly because of the receipts of the most orders at the end of the financial year.

- Raw Materials: Due to continued efforts by the organizations to overcome the problems arise due to material at higher prices and increased utilization of internally generated scrap has resulted in reduced cost of raw material consumption.
- Repairs and Maintenance: Because of the aging of the machinery and equipment, repairs and maintenance jobs are increasing. The major portion of this expenditure comprises of spares.
- Off-Loading Expenses: Besides the regular jobs off loading like machining of low alloys steels, rolling steels etc. off loading of work in resorted to reduce the cost of production by getting the small works done outside at cheaper

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rate, in order to obtain better yields. During the expenses were higher because of drastic reduction in volume if off loading quality.

- Salaries and Wages: The increased expenditure on salaries and wages because of increase in PF and EPS. Increase sue to payment of gratuity etc. other expenses are reduced like leave encashment.
- Administration & selling: The increases in expenditure on administration & selling were mainly due to increase in printing and stationery expenses. Increase in administration expenses was mainly due to increase in administration miscellaneous including entertainment expenses Rs.0.36 lakh.
- R&D: The expenditure on R&D was more than the estimate which shows that aggressive R&D activity was undertaken and more goods were produced as result of R&D. during the year geosynchronous satellite launch vehicle (GSLV). The performance of the company's maraging steel which goes into making the rocket motor casing etc.
- Inventory Level: Decrease in inventory by 2.44 crores as against RE because of high value of production resulting in to higher consumption of inventories.

INVENTORY BUDGET (2007-2008) (Rs In Lakhs)

PARTICULARS	BE	RE	ACTUALS	VARIANCE
Raw materials	930	906	566	340(fav)
Consumables	650	580	523	57(fav)
Spares	250	270	231	39(fav)
Internally generated	600	1138	1657	519(fav)
Work in progress	3164	3499	2838	661(adv)
Finished goods	15	250	110	140(fav)
Total inventory	5609	6643	5925	718(fav)

DETAILS OF SALARIES AND BENEFITS (2007-2008)

Particulars	Be	Re	Actuals	Variance
Salaries &	2421	2698	2534	164(Fav)
Allowances				
Leave encashment	89	89	90	1(adv)
Comp off	25	34	20	14(fav)
Incentive Bonus	0	0.14	0	.14(adv)
Statutory Bonus	13	16	14	2(fav)
Stipend to Trainees	229	223	220	3(fav)
Pf(Ind. Insp.)	228.5	267.00	230.5	37(fav)
Gratuity	106.37	100	109.89	0.9(adv)
VRS	111.87	87.00	90.23	3.23(adv)
Misc	3.6	5.67	7.0	2.67(adv)
	3227.34	**3544.79**	**33.15.12**	**229.67(fav)**
WELFARE EXPENSES				
Canteen expenses	56	60	64	4(adv)
Health Care	127	150	145	5.00(fav)
Family Welfare	7.1	4.5	5.00	0.5(fav)
Liveries	28	26	23	3.00(fav)
LTC	85	80	89	9(adv)
Transport	39.47	45.50	41.34	4.16(fav)
Conv Allowance	41	25	30	5(adv)
Children Educational	15	16	19	3.(adv)
Allowances				
Staff Welfare	364	410	404	0.6(fav)
Int subsidy on	19	12	15	3(adv)
House	20	30	25	5(fav)

Loans				
Township Expenses	29	30	32	2(fav)
TOTAL WELFARE	**490.11**	**898.5**	**532.41**	**17.76**
GRAND TOTAL	**3717.45**	**4442**	**3847.53**	**258.76(fav)**

REASONS FOR VARIANCES FOR THE YEAR 2007-2008

The increase in sales quantity and VOP of actual over RE indicates that sufficient orders were received, particularly of low value items lime soft iron.

Off-Loading Expenses: Besides the regular jobs off loading like machining of low alloys steels, rolling steels etc. off loading of work in resorted to reduce the cost of production by getting the small works done outside at cheaper rate, in order to obtain better yields. During the expenses were higher because of drastic reduction in volume if off loading quality.

Salaries and Wages: The increased expenditure on salaries and wages because of increase in PF and EPS. Increase sue to payment of gratuity etc. other expenses are reduced like leave encashment.

R&D: The expenditure on R&D was more than the estimate which shows that aggressive R&D activity was undertaken and more goods were produced as result of R&D. during the year geosynchronous satellite launch vehicle (GSLV).

Inventory: As most of the orders were received at the end of the financial year, the organization was not able to execute the orders in time and WIP has increased over estimates. The increase in finished goods inventory indicates that there is a delivery of goods to the customers.

Even though the sales turnover was less than the estimate, the organization exercised control over expense and consequently the cost of production was less than the estimates and as a result the operating loss was less than the estimated

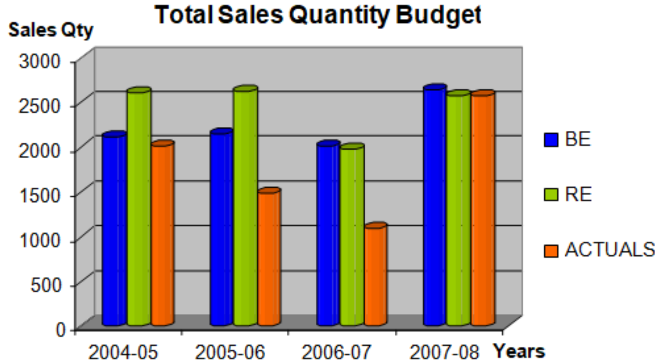
TOTAL INVENTORY BUDGETARY

YEARS	BE	RE	ACTUALS
2006-07	5894	6546	5666
2007-08	5609	6643	5925

Interpretation:

The inventory level was increased in 2004-05. After that next year the level of inventory decreased. Increasing in inventory as against RE in 2007-08 due to low value of production resulting in leaser consumption.

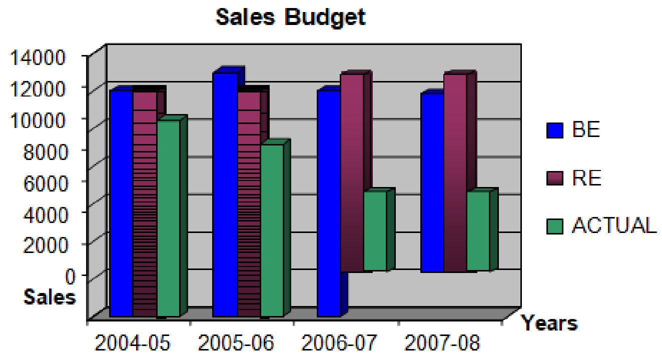
TOTAL SALES QUANTITY BUDGET



Interpretation:

Sales quantity has been increasing from 2004-2005 to 2005-06. In 2006-07 sales quantity has decreased. In the year 2004-05 actual was overcome the target. Actuals over RE indicates that sufficient orders were received, particularly of low value items like soft iron. Nuclear strolls than those of high value items like super alloys.

SALES BUDGET



Interpretation:

Taking in to the consideration of 2 years data of sales budget, there is increase in the year 2005-06. Actual were low than the revised estimates. Hence it

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is not reached to the targets. While estimating the sales budget firm should consider from the customer.

2 YEARS AT A GLANCE

	Particulars	2006-07	2007-08
1	Sales To consumers Dispatches to Sub-contractors	9,562.63 2,949.96	**11,190.78** **1,936.23**
2	Value of Production (including ED)	11,641.88	**14,166.73**
3	Cash profit /loss (Before prior Period Adjustments and Excluding Amortization of DRE & Dep	908.62	**1,335.47**
4	Net Profit (PAT) Before prior Period Adjustments	690.15	**687.08**
5	Value added	9,082.89	**9,697.49**
6	Value added for employee	7.06	**9,697.49**
7	Productivity for Employee	9.05	**10.72**
8	Paid up Capital	13,734.00	**13,734**

III. ELEMENTS OF SUCCESSFUL BUDGETING PLAN

The success of the budgeting process is an organization depends on the following essential elements:

Accurate Forecasting of Business Activities:
Forecasting is a prerequisite in a budgeting process. It is not only the starting point, but is also critical to the development of an accurate budge. Forecasting can be done regarding activities which are internal and external to an organization. Internal activities are easier to forecast than external activities such as production forecast. But external factors like state than external activities such as production forecast. But external factors like state of and nature of marker conditions, inflation or deflation and its company products are difficult to predict. Business firms require competent market researchers to forecast accurately such external factors.

Coordinating Business Activities:
Budgeting needs to coordinating all the individual budgets into an integrated plan as each budget has certain implication for the other budgets. There must be coordination between sales, production purchasing, and personnel budges. Budgets are useful tools in communicating budgetary organizational activities.

Communicating the Budgets:
The successes of comprehensive budgeting programmers depend on communication of individual budgets to the different units in the organization. The basic point is that the preparation of the budget is of on value unless it is known to the person for budget of communicated clearly, concisely and in an authoritative manner to them.

Acceptance and Cooperation:
Successful budgeting also requires that budgets should be accepted by the people who must execute them. Budgeting should have the active cooperation of the organization from the top to the bottom. Cooperation for the budget can be achieved in a number of ways.

Reasonable Flexibility:
The budgeting program should contain reasonable flexibility if the situation so demands. However, it should be noted that too much flexibility and too much tightness are both undesirable. Too much flexibility will weaken the cost control and the budget will become inoperative. If conditions have changed making the estimates and budgets inaccurate, the budgets should be revised, a budget is simply a tool to serve managements needs and not an irrevocable contract.

Proving a Framework for Evaluation:
Budgeting provides a basis to evaluate the performance of different departments. A comprehensive budget, properly developed, will contain initially organizational goals and expectations and subsequently can be used as an effective evaluation technique.

Suggestions or Guidelines for Preparation of good budget

Firstly, determine the principal budget factor this is also known as the key budget factor or limiting budget factor and is the factor which will limit the activities of an undertaking. This limits output.

A) Sales budget: This involves a realistic sales forecast.

This is prepared in units of each product and also in Sales value. Methods of sales forecasting include:

- Sales force opinions
- Market research
- Statistical Methods (correlation analysis and examination
- Mathematical models using these techniques consider:

Company's pricing policy
General economic and political conditions
Changes in the population
Competition
Consumer's income and tastes
Advertising and other sales promotion techniques
After sales service credits terms offered

B) Production Budget: expressed in quantitative terms only and and is geared to the sales budget. The production manager's duties include:

- Analysis of plant utilization
- Work-in progress budgets
- If requirements exceed capacity he may:
- Subcontract
- Plan for overtime
- Introduce shift work
- Hire or buy additional machinery

C) Raw Materials and purchasing budget: The materials usage budget is in quantities. The materials purchase budget is both quantitative and financial.

Factors influencing A) and B) include:

- Production requirements
- Man-hours available
- Wage rates (union agreements)
- The need for incentives

D) Cash Budget: cash plan for a defined period of time it summaries monthly receipts and payments. Hence, it highlights monthly surplus and deficits of actual cash. It main uses are

To enable a firm to tale precautionary measures and arrange in advance for Investment and loan facilities whenever cash surpluses or deficits arises

To show the feasibility of management plans in cash terms

To illustrate financial impact of changes in management policy e.g

Change of credit terms offer to customers.

Receipts of cash may come from one the following

- Cash sales
- Payments by debtors
- The sale of fixed assets
- The issue of new shares
- The receipt of interest and dividends form investment
- Payments of cash may be for one or more of the following:
- Purchase of stocks
- Payments of wages or other expenses
- Purchase of capital items

IV. FINDINGS, SUGGESTIONS & CONCLUSIONS

FINDINGS

- Inventory budget has been decreased from year to year. In 2004-05 it has 6671 actuals and 2007-08 it has been decreased to 5929 actuals.
- It was observed that sales quantity budget has been increased from year to year. In 2006-07 it has 2011 and 2007-08 has 2633.
- Sales budget has moving on the same way. There is a minor change in this budget. It said to be satisfactory.
- Other expenses have also decrease from year to year. These results it is said to be that the expenses budget is satisfactory.

SUGGESTIONS

- As the internal resources are not sufficient to take up the major modifications revamping of the equipment covering to the requirements of strategic sector, Government of India must take steps to provide.
- As LG is the manufacturer of electronics and consumer durables alloys in the country, the most acceptable material for electronics

devices worldwide. It should put in more efforts to capture a sizable market share of consumer durables.

- LG ELECTRONICS continues to be comfortable on the power front with the availability of surplus power uninterruptedly from its feeder agencies. However, by taking strategic decisions at appropriate time it could be able to transfer some of its surplus power, reserved for its future expansion and modernization schemes, temporary to another sister organizations in public sector, thereby avoiding payment for unused power charges duly safe guarding is requirements to avail the same at times it becomes necessary.
- For the past few years it is evident that the inventories including the scrap generated internally is in excess of estimates. The organization must take steps to utilize the scrap to bring down inputs costs.
- While several sectors like Defense and Aeronautics enjoy concessions of 'NIL'duty, power and software sectors from 5% to 20% no concessions are available to LG ELECTRONICS in import of its raw materials. Government should take steps to provide some relief in this regard.

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